

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

JUNE 30, 2006

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Pine River Area Schools
Leroy, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pine River Area Schools, Leroy, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pine River Area Schools' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pine River Area Schools, Leroy, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of Pine River Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xi and 24, are not a required part of the basic financial statements but are supplementary information

The management's discussion and analysis and budgetary comparison information on pages iii through xi and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pine River Area Schools, Leroy, Michigan basic financial statements. The combining and individual financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole

BAIRD, COTTER AND BISHOP, P.C

Baird, Cotter & Bishop, P.C.

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Pine River Area Schools, a K-12 school district located in Lake, Osceola and Wexford Counties, Michigan, offers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the District's financial activity.

Financial Highlights

Government-Wide

- ❖ The assets of the District exceeded its liabilities at the close of this fiscal year by \$3,592,827 (shown as Net Assets), representing an increase of \$906,602 over the previous fiscal year.

Fund Level Financial Highlights

- ❖ As of June 30, 2006, the governmental funds of Pine River Area Schools reported combined ending fund balances of \$4,050,757, of which \$3,735,834 is unreserved and \$314,923 is reserved.
- ❖ The unreserved fund balance of the District's General Fund increased this year by \$828,163.

Long-Term Debt

- ❖ Pine River Area Schools' total long term debt **decreased** by \$326,447 during the fiscal year.

Overview of the Financial Statements

Pine River Area Schools' financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represented those presented by business and industry. The entire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pine River Area Schools, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Governmental Funds Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental fund and governmental activities.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the District's programs. These funds are accounted for using the full accrual method of accounting.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

C. Summary of Net Assets

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the District's financial position over time. The Net Assets of the District are \$3,592,827 at June 30, 2006 meaning the District's assets were greater than its liabilities by this amount.

The following schedule summarizes the net assets at fiscal year ended June 30:

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 5,283,254	\$ 4,323,312
Non Current Assets		
Capital Assets	\$ 11,951,589	\$ 11,824,199
Less Accumulated Depreciation	(5,786,847)	(5,409,034)
Total Non Current Assets	\$ 6,164,742	\$ 6,415,165
Total Assets	<u>\$ 11,447,996</u>	<u>\$ 10,738,477</u>
Liabilities		
Current Liabilities	\$ 1,579,789	\$ 1,450,425
Non Current Liabilities	6,275,380	6,601,827
Total Liabilities	<u>\$ 7,855,169</u>	<u>\$ 8,052,252</u>
Net Assets		
Invested in Capital Assets Net of Related Debt (Deficit)	\$ (35,258)	\$ (117,202)
Restricted for Debt Service	248,519	292,794
Unrestricted	<u>3,379,566</u>	<u>2,510,633</u>
Total Net Assets	<u>\$ 3,592,827</u>	<u>\$ 2,686,225</u>
Total Liabilities and Net Assets	<u>\$ 11,447,996</u>	<u>\$ 10,738,477</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$906,602. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$377,813 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$127,390 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above. The District capitalized technology equipment and one bus.

The net effect of the new capital assets and the current year's depreciation is a net decrease in capital assets in the amount of \$250,423 for the fiscal year ended June 30, 2006.

E. Results of Operations

For the fiscal years ended June 30, 2006 and 2005, the results of operations, on a District-wide basis, were:

	2006		2005	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$ 1,998,997	16.4%	\$ 1,917,340	16.3%
Investment Earnings	101,736	0.8%	37,068	0.3%
State Sources	7,383,641	60.4%	7,428,127	63.3%
Other	217,018	1.8%	153,674	1.3%
Total General Revenues	\$ 9,701,392	79.4%	\$ 9,536,209	81.2%
Program Revenues				
Charges for Services	\$ 209,833	1.7%	\$ 228,598	1.9%
Operating Grants	2,266,099	18.6%	1,828,654	15.6%
Capital Grants	37,431	0.3%	136,984	1.3%
Total Program Revenues	\$ 2,513,363	20.6%	\$ 2,194,236	18.8%
Total Revenues	\$12,214,755	100.0%	\$ 11,730,445	100.0%
Expenses				
Instruction	\$ 6,479,532	57.3%	\$ 6,507,889	56.7%
Supporting Services	3,471,316	30.7%	3,558,203	31.0%
Food Service Activities	471,886	4.2%	469,323	4.1%
Athletic Activities	208,646	1.8%	230,673	2.0%
Interest on Long-Term Debt	297,684	2.6%	323,173	2.8%
Other Transactions	1,276	0.0%	1,500	0.0%
Unallocated Depreciation	377,813	3.3%	379,561	3.3%
Total Expenses	\$11,308,153	100.0%	\$ 11,470,322	100.0%
Change in Net Assets	\$ 906,602		\$ 260,123	

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

F. Analysis of Significant Revenues and Expenditures

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18.0000 mills of property taxes for operations on non-homestead properties, after the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$1,451,225 in non-homestead property taxes. This represented an increase of 6.92% from the prior year. The amount of unpaid property taxes at June 30, 2006, was \$20,736.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-Homestead Tax Levy	% Increase (Decrease) from Prior Year
2005-2006	1,451,225	6.92%
2004-2005	1,357,255	13.3%
2003-2004	1,197,838	-1.43%
2002-2003	1,215,185	7.26%
2001-2002	1,132,916	8.53%
2000-2001	1,043,915	8.01%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005-2006 fiscal year, the District received \$6,875 per student FTE, which represented an increase of \$175 received for the 2004-2005 fiscal year.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past five fiscal years:

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Fiscal Year	Blended Student FTE	FTE Change from Prior Year
2005-2006	1,316	(24)
2004-2005	1,340	(20)
2003-2004	1,360	(11)
2002-2003	1,371	(14)
2001-2002	1,385	17
2000-2001	1,368	21

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state, and other grants accounted for \$2,303,530. This represents an increase over the total grant sources of \$337,892 received for the 2004-2005 fiscal year.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District amended the general fund budget one time, with the Board adopting the changes in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>	<u>\$ 9,986,100</u>	<u>\$ 11,125,046</u>	<u>\$ 11,083,529</u>
<u>EXPENDITURES</u>			
Instruction	\$ 6,485,066	\$ 6,625,832	\$ 6,550,220
Supporting Services	3,708,255	3,906,248	3,743,836
Transfers	172,647	167,653	161,076
Total Expenditures and Transfers	<u>\$10,365,968</u>	<u>\$ 10,699,733</u>	<u>\$ 10,455,132</u>

The original revenue budget of \$9,986,100 was increased to \$11,125,046 as a result of various adjustments needed to more accurately reflect the expected revenue. This includes increases in budgeted state and federal sources and decreases in local sources and other transactions.

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

H. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2005-2006 fiscal year, the District had invested \$6,164,742 net of accumulated depreciation in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents an increase of \$250,423 over the prior fiscal year. Depreciation expense for the year amounted to \$377,813 bringing the accumulation to \$5,786,847 as of June 30, 2006.

2. Long-Term Debt

At June 30, 2006, the District had \$6,600,127 in long-term debt outstanding. This represents a reduction of \$277,636 from the amount outstanding at the close of the prior fiscal year.

I. Governmental Activities

The focus of Pine River Area Schools' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,050,757. Of this amount, 90.97% or \$3,685,088 is unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period, 2) to pay debt service, or 3) for a variety of other restricted or designated purposes.

The general fund is the chief operating fund of Pine River Area Schools. The general fund increased its fund balance by \$828,163. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$3,685,088, while total fund balance reached \$3,698,664. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 36.54% of total general fund expenditures, while total fund balance represents 36.67% of that same amount.

J. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

A comparison of expenditures by fund is as follows:

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Expenditures	2005-2006 Fiscal Year	2004-2005 Fiscal Year	Increase (Decrease)
General Fund	\$10,086,200	\$10,294,056	\$ (207,856)
Food Service Fund	471,719	469,689	2,030
Athletic Activities Fund	225,150	228,355	(3,205)
Debt Service Funds	573,549	563,412	10,137
Total Expenditures	<u>\$11,356,618</u>	<u>\$11,555,512</u>	<u>\$ (198,894)</u>

K. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006-2007 fiscal year.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance, which will continue to put a strain on district resources. The District contracts with two employee groups, the Pine River Education Association and the Pine River Education Support Personnel Association.
- The District is facing a slow but steady decline in student enrollment. This decline is attributed to a loss in population rather than a loss by schools of choice.
- Due to the above factors, reductions have been made in the support areas of the school district. At this time no reductions have been made that affect class size or educational opportunities for students. Student achievement continues to be the main focus of the district, with all schools in the district maintaining and exceeding the state accreditation standards for achievement. All budget decisions are made with student achievement as top priority.
- The District has recognized the need to have an ongoing budget for bus replacement and technology replacement. Our bus vehicles are new and in excellent condition for the many miles they travel each day. The district has replaced all computer hardware within the last three years and the student body utilizes 1:3 ratio of computers per student, which is well above the standard set for schools. The district has an exemplary technology program with wireless access in all buildings and classrooms with the most current technology software, and with staff support for technology integration in the classroom.
- All of these factors were considered in preparing the Pine River Area Schools' budget for the 2007 fiscal year.

**Pine River Area Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Contacting the District's Financial Management

- This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Business Manager, Pine River Area Schools, 17445 Pine River School Road, LeRoy, Michigan 49655.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 480,126
Taxes Receivable	20,736
Accounts Receivable	892
Due from Other Governments	1,506,808
Inventories	17,442
Investments	3,257,250
Total Current Assets	<u>\$ 5,283,254</u>

NON CURRENT ASSETS

Capital Assets	\$ 11,951,589
Less Accumulated Depreciation	<u>(5,786,847)</u>
Total Non Current Assets	<u>\$ 6,164,742</u>
TOTAL ASSETS	<u><u>\$ 11,447,996</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 139,020
Accrued Expenses	408,764
Accrued Interest Payable	48,962
Salaries Payable	587,896
Deferred Revenue	70,400
Current Portion of Non Current Liabilities	324,747
Total Current Liabilities	<u>\$ 1,579,789</u>

NON CURRENT LIABILITIES

Bonds Payable	\$ 6,267,367
Retirement Incentive	16,218
Compensated Absences	316,542
Less Current Portion of Non Current Liabilities	<u>(324,747)</u>
Total Non Current Liabilities	<u>\$ 6,275,380</u>
Total Liabilities	<u>\$ 7,855,169</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt (Deficit)	\$ (35,258)
Restricted for Debt Service	248,519
Unrestricted	3,379,566
Total Net Assets	<u>\$ 3,592,827</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 11,447,996</u></u>

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ACTIVITIES
					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction					
Basic Programs	\$ 4,877,816	\$ 6,710	\$ 369,041	\$ 10,545	\$ (4,491,520)
Added Needs	1,601,716	0	1,527,339	0	(74,377)
Supporting Services					
Pupil	236,579	0	34,981	0	(201,598)
Instructional Staff	139,546	0	0	10,132	(129,414)
General Administration	257,402	0	0	0	(257,402)
School Administration	715,320	0	0	0	(715,320)
Business	331,156	0	0	16,754	(314,402)
Operation and Maintenance of Plant	1,143,619	0	0	0	(1,143,619)
Pupil Transportation Services	631,386	0	0	0	(631,386)
Facilities Acquisition	16,308	0	0	0	(16,308)
Food Service	471,886	151,015	328,738	0	7,867
Athletic Activities	208,646	52,108	6,000	0	(150,538)
Interest on Long Term Debt	297,684	0	0	0	(297,684)
Other Transactions	1,276	0	0	0	(1,276)
Unallocated Depreciation	377,813	0	0	0	(377,813)
Total Governmental Activities	<u>\$ 11,308,153</u>	<u>\$ 209,833</u>	<u>\$ 2,266,099</u>	<u>\$ 37,431</u>	<u>\$ (8,794,790)</u>
<u>GENERAL REVENUES</u>					
Property Taxes -Levied for General Purposes					\$ 1,438,691
Property Taxes -Levied for Debt Service					560,306
Investment Earnings					101,736
State Sources					7,383,641
Other					217,018
Total General Revenues					<u>\$ 9,701,392</u>
Change in Net Assets					\$ 906,602
<u>NET ASSETS</u> - Beginning of Year					<u>2,686,225</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 3,592,827</u>

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<hr/>			
<u>ASSETS</u>			
Cash	\$ 436,824	\$ 43,302	\$ 480,126
Taxes Receivable	18,170	2,566	20,736
Accounts Receivable	0	892	892
Due from Other Governments	1,488,309	3,745	1,492,054
Due from Other Funds	0	40,981	40,981
Inventories	13,576	3,866	17,442
Investments	3,000,509	256,741	3,257,250
<hr/>			
TOTAL ASSETS	\$ 4,957,388	\$ 352,093	\$ 5,309,481
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
 <u>LIABILITIES</u>			
Accounts Payable	\$ 139,020	\$ 0	\$ 139,020
Accrued Expenses	408,764	0	408,764
Salaries Payable	587,896	0	587,896
Deferred Revenue	82,063	0	82,063
Due to Other Funds	40,981	0	40,981
<hr/>			
Total Liabilities	\$ 1,258,724	\$ 0	\$ 1,258,724
<hr/>			
<u>FUND BALANCES</u>			
Reserved for Inventory	\$ 13,576	\$ 3,866	\$ 17,442
Reserved for Debt Service	0	297,481	297,481
Unreserved, Undesignated	3,685,088	0	3,685,088
Unreserved, Designated - Special Revenue	0	50,746	50,746
<hr/>			
Total Fund Balances	\$ 3,698,664	\$ 352,093	\$ 4,050,757
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,957,388	\$ 352,093	\$ 5,309,481

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances		\$4,050,757
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$11,951,589	
Accumulated depreciation is	<u>(5,786,847)</u>	6,164,742
Long term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds Payable		(6,267,367)
Retirement Incentive		(16,218)
Compensated Absences		(316,542)
Balance of receivables at June 30, 2006 expected to be collected after September 1, 2006		
Taxes Receivable		11,663
Due From Other Governments		14,754
Accrued interest is not included as a liability in governmental funds, it is recorded when paid.		<u>(48,962)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$3,592,827</u></u>

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 1,666,458	\$ 780,329	\$ 2,446,787
State Sources	8,075,956	26,437	8,102,393
Federal Sources	749,149	309,706	1,058,855
Other Transactions	591,966	0	591,966
Total Revenues	<u>\$ 11,083,529</u>	<u>\$ 1,116,472</u>	<u>\$ 12,200,001</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	\$ 4,910,033	\$ 0	\$ 4,910,033
Added Needs	1,612,962	0	1,612,962
Supporting Services			
Pupil	236,757	0	236,757
Instructional Staff	143,260	0	143,260
General Administration	243,692	0	243,692
School Administration	706,103	0	706,103
Business	368,566	0	368,566
Operation and Maintenance of Plant	1,207,015	0	1,207,015
Pupil Transportation Services	641,504	0	641,504
Facilities Acquisition	16,308	0	16,308
Food Service	0	471,719	471,719
Athletic Activities	0	225,150	225,150
Debt Service			
Principal	0	265,000	265,000
Interest	0	307,273	307,273
Other Transactions	0	1,276	1,276
Total Expenditures	<u>\$ 10,086,200</u>	<u>\$ 1,270,418</u>	<u>\$ 11,356,618</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 997,329</u>	<u>\$ (153,946)</u>	<u>\$ 843,383</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	\$ 0	\$ 169,166	\$ 169,166
Transfers Out	(169,166)	0	(169,166)
Total Other Financing Sources (Uses)	<u>\$ (169,166)</u>	<u>\$ 169,166</u>	<u>\$ 0</u>
Net Change in Fund Balances	<u>\$ 828,163</u>	<u>\$ 15,220</u>	<u>\$ 843,383</u>
<u>FUND BALANCES</u> - Beginning of Year	<u>2,870,501</u>	<u>336,873</u>	<u>3,207,374</u>
<u>FUND BALANCES</u> - End of Year	<u>\$ 3,698,664</u>	<u>\$ 352,093</u>	<u>\$ 4,050,757</u>

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ 843,383
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(377,813)
Capital Outlay	127,390

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	58,551
Accrued Interest Payable - End of Year	(48,962)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Federal Grant Not to be Received within 60 Days	14,754
Taxes Included in Deferred Revenue - End of Year	11,663

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	265,000
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Employees Retirement Incentive and Accumulated Sick Pay are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Employees Retirement Incentive - Beginning of Year	26,808
Employees Retirement Incentive - End of Year	(16,218)
Accumulated Sick Pay - Beginning of Year	318,588
Accumulated Sick Pay - End of Year	(316,542)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 906,602</u>
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The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
	<hr/>	
<u>ASSETS</u>		
Cash	\$ 0	\$ 76,234
Investments	28,041	14,684
	<hr/>	
TOTAL ASSETS	\$ 28,041	\$ 90,918
	<hr/>	
	<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>		
Due to Groups and Organizations	\$ 0	\$ 90,918
<u>NET ASSETS</u>		
Reserved for Trust Activities	28,041	0
	<hr/>	
TOTAL LIABILITIES AND NET ASSETS	\$ 28,041	\$ 90,918
	<hr/>	

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2006

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 1,073
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>500</u>
CHANGE IN NET ASSETS	\$ 573
<u>NET ASSETS</u> - Beginning of Year	<u>27,468</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 28,041</u></u>

The notes to the financial statements are an integral part of this statement.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Pine River Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Pine River Area Schools (the "District") is located in Lake, Osceola and Wexford Counties with its administrative offices located at 6735 N. Pine River School Road, LeRoy, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,273 students in elementary, middle, high school, and special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds – account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for contributions earmarked for scholarships available to qualifying students of the District.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Pine River Area Schools.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two (2) years of the date of purchase.

The School's deposits and investments are held separately by several of the School District's funds.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1, and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.000
Debt Service Fund - Homestead and non-homestead	3.000

4. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the general and special revenue funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5-15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

6. Compensated Absences

It is the District's policy to permit employees to accumulated earned but unused sick pay and comp time benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortization of premiums, discounts and bond issuance costs, prospectively for all bonds issued after July 1, 2003.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds. All annual appropriations lapse at fiscal year-end.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 27, 2005, or as amended by the School Board of Education on June 26, 2006.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

School Service Fund - Food Service Fund expenditures of \$471,719 exceeded appropriations of \$460,732 by \$10,987.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

The District's deposits and investments are all on deposit with banks within the District and Michigan School District Liquid Asset Fund Plus.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$352,205 of the government's bank balance of \$556,360 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, all of the District's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds	\$ <u><u>3,299,975</u></u>
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The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$480,126	\$ 0	\$ 76,234	\$ 556,360
Investments	0	3,257,250	42,725	3,299,975
	<u>\$480,126</u>	<u>\$3,257,250</u>	<u>\$118,959</u>	<u>\$3,856,335</u>

B. Receivables

Receivables as of year end for the government's individual major fund and nonmajor, and fiduciary funds are as follows:

	General	Nonmajor and Other Funds	Total
Receivables			
Taxes	\$ 18,170	\$ 2,566	\$ 20,736
Accounts	0	892	892
Other Governmental Units	1,488,309	3,745	1,492,054
Total Receivables	<u>\$1,506,479</u>	<u>\$ 7,203</u>	<u>\$1,513,682</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent Property Taxes Receivable	\$ 11,663	\$ 0
Grants Receipts Received, But Not Yet Utilized	0	70,400
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 11,663</u>	<u>\$ 70,400</u>

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Buildings and additions	\$ 8,937,104	\$ 61,846	\$ 0	\$ 8,998,950
Machinery and equipment	1,696,567	56,329	0	1,752,896
Transportation equipment	1,190,528	9,215	0	1,199,743
Subtotal	\$11,824,199	\$ 127,390	\$ 0	\$11,951,589
Less accumulated depreciation for:				
Buildings and additions	\$ 3,470,642	\$ 184,705	\$ 0	\$ 3,655,347
Machinery and equipment	1,261,432	102,177	0	1,363,609
Transportation equipment	676,960	90,931	0	767,891
Accumulated Depreciation	\$ 5,409,034	\$ 377,813	\$ 0	\$ 5,786,847
Net capital assets	\$ 6,415,165	\$(250,423)	\$ 0	\$ 6,164,742

Depreciation for the fiscal year ended June 30, 2006 amounted to \$377,813. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the Long-Term Debt transactions for the School District for the year ended June 30, 2006:

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

	GENERAL OBLIGATION SERIAL BONDS	DURANT SCHOOL IMPROVEMENT BONDS	ACCUMULATED SICK PAY AND RETIREMENT INCENTIVE	TOTAL
Long-Term Debt at July 1, 2005	\$ 6,465,000	\$ 67,367	\$ 345,396	\$6,877,763
Increase in Debt	0	0	0	0
Reductions in Debt	(265,000)	0	(12,636)	(277,636)
 LONG-TERM DEBT AT JUNE 30, 2006	 \$ 6,200,000	 \$ 67,367	 \$ 332,760	 \$6,600,127
 Due Within One Year	 \$ 285,000	 \$ 28,638	 \$ 11,109	 \$ 324,747

At June 30, 2006, the School District's long-term debt consisted of the following:

General Obligation Serial Bonds

1999 Refunding Bonds Due in Annual Installments of \$285,000 to \$540,000
through May 1, 2021, Plus Interest at 4.20% to 5.00% \$6,200,000

Self Liquidating Bond

1998 School Improvement Bond Due in Annual Installments of \$5,829 to
\$28,638 through May 15, 2013, Plus Interest at 4.070% 67,367

Accumulated Sick Pay

316,542

Retirement Incentive

16,218

\$6,600,127

The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest payments of \$2,638,007 are as follows:

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

<u>Year Ending June 30,</u>	<u>Bonds</u>		<u>Retirement Incentive</u>		<u>Amount Payable</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$ 313,638	\$ 295,307	\$ 11,109	\$ 0	\$ 620,054
2008	305,829	278,608	5,109	0	589,546
2009	326,066	265,621	0	0	591,687
2010	346,312	251,455	0	0	597,767
2011	361,570	236,407	0	0	597,977
2012-2016	2,063,952	986,242	0	0	3,050,194
2017-2021	2,550,000	324,367	0	0	2,874,367
	<u>\$6,267,367</u>	<u>\$2,638,007</u>	<u>\$ 16,218</u>	<u>\$ 0</u>	<u>\$8,921,592</u>
Accumulated Sick Pay					<u>316,542</u>
					<u>\$9,238,134</u>

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the employees will use the sick leave. The General Fund will generally liquidate accumulated sick pay.

E. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2006, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 0	\$ 40,981
School Service Fund - Food Service	2,807	0
Debt Service Fund - 1999 Debt	38,174	0
	<u>\$ 40,981</u>	<u>\$ 40,981</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2006, are expected to be repaid within one year.

Interfund transfers as shown in the individual fund financial statements at June 30, 2006, were:

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

	<u>TRANSFERS</u> <u>IN</u>	<u>TRANSFERS</u> <u>OUT</u>
General Fund	\$ 0	\$ 169,166
School Service Fund - Athletic Activities Fund	169,166	0
	<u>\$ 169,166</u>	<u>\$ 169,166</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Leases

The rental expense for the year ended June 30, 2006, and 2005, totaled \$56,779 and \$50,103, respectively.

The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	<u>PAYABLES</u>
2007	\$ 34,176
2008	34,176
2009	<u>2,118</u>
	<u>\$ 70,470</u>

G. Designated and Reserved Fund Balance

The School has designated the fund balance as follows:

1. Food Service and Athletic Activities

The School's policy is to show fund balance of the Food Service Fund and Athletic Activities Fund as designated for those purposes.

2. Debt Service

The entire fund balances of the Debt Service Funds are reserved for debt service.

3. Inventory

The General Fund Balance and Food Service Fund Balance are reserved for inventories to emphasize that these amounts are not appropriable for other purposes.

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% of payroll through September 2005, and 16.34% effective October 2005. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005, and 2004 were \$914,071, \$840,420 and \$776,744 respectively, and were equal to the required contribution for those years.

Other Post Employment Benefits Funding Policy

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total

PINE RIVER AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

C. Headlee Underfunding Settlement

The District received and accepted an offer from the State of Michigan to settle a lawsuit commonly known as the *Durant* case. This lawsuit related to the underfunding of state mandated special education services. The District will receive a total of \$210,897 as a result of this settlement as follows:

1. Fifty percent will be paid in ten annual installments of \$10,545 which began on November 15, 1998 without interest.
2. The remaining fifty percent was received on November 24, 1998 with bond proceeds from a Michigan Municipal Bond Authority bond program.

The ten year installment payments may be used only for textbooks, electronic instructional material, software, technology, infrastructure or infrastructure improvements, school buses, school security, technology training, or debt service payment on voter-approved bonds issued before November 19, 1997.

Money received through the Michigan Municipal Bond Authority bond program may be used only for purposes allowable under Section 1351a of the Revised School Code. Section 1351a allows payments relative to capital expenditures and improvements.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 1,429,000	\$ 1,670,664	\$ 1,666,458
State Sources	7,847,500	8,014,500	8,075,956
Federal Sources	556,100	842,607	749,149
Other Transactions	153,500	597,275	591,966
Total Revenues	<u>\$ 9,986,100</u>	<u>\$11,125,046</u>	<u>\$11,083,529</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	\$ 4,672,706	\$ 5,155,588	\$ 4,910,033
Added Needs	1,671,376	1,631,787	1,612,962
Supporting Services			
Pupil	193,808	241,894	236,757
Instructional Staff	168,053	165,807	143,260
General Administration	256,819	267,224	243,692
School Administration	810,197	748,207	706,103
Business	369,664	500,400	368,566
Operation and Maintenance of Plant	1,225,550	1,391,150	1,207,015
Pupil Transportation Services	728,550	706,550	641,504
Facilities Acquisition	0	0	16,308
Total Expenditures	<u>\$ 10,096,723</u>	<u>\$10,808,607</u>	<u>\$10,086,200</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (110,623)	\$ 316,439	\$ 997,329
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(184,603)	(185,803)	(169,166)
Net Change in Fund Balance	\$ (295,226)	\$ 130,636	\$ 828,163
<u>FUND BALANCE - Beginning of Year</u>	<u>2,560,265</u>	<u>2,870,501</u>	<u>2,870,501</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 2,265,039</u>	<u>\$ 3,001,137</u>	<u>\$ 3,698,664</u>

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT RETIREMENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 43,302	\$ 0	\$ 43,302
Taxes Receivable	0	2,566	2,566
Accounts Receivable	892	0	892
Due from Other Governments	3,745	0	3,745
Due from Other Funds	2,807	38,174	40,981
Inventory	3,866	0	3,866
Investments	0	256,741	256,741
TOTAL ASSETS	<u>\$ 54,612</u>	<u>\$ 297,481</u>	<u>\$ 352,093</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>FUND BALANCES</u>			
Reserved for Inventory	\$ 3,866	\$ 0	\$ 3,866
Reserved for Debt Service	0	297,481	297,481
Unreserved, Designated	50,746	0	50,746
Total Fund Balances	<u>\$ 54,612</u>	<u>\$ 297,481</u>	<u>\$ 352,093</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 54,612</u>	<u>\$ 297,481</u>	<u>\$ 352,093</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT RETIREMENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 209,498	\$ 570,831	\$ 780,329
State Sources	19,032	7,405	26,437
Federal Sources	309,706	0	309,706
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 538,236	\$ 578,236	\$ 1,116,472
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Food Service	\$ 471,719	\$ 0	\$ 471,719
Athletic Activities	225,150	0	225,150
Debt Service			
Principal	0	265,000	265,000
Interest	0	307,273	307,273
Other Expenditures	0	1,276	1,276
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 696,869	\$ 573,549	\$ 1,270,418
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ (158,633)	\$ 4,687	\$ (153,946)
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES</u>			
Transfers In	169,166	0	169,166
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	\$ 10,533	\$ 4,687	\$ 15,220
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u> - Beginning of Year	44,079	292,794	336,873
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u> - End of Year	\$ 54,612	\$ 297,481	\$ 352,093
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND

COMPARATIVE BALANCE SHEET
JUNE 30, 2006

	2006	2005
<u>ASSETS</u>		
Cash	\$ 436,824	\$ 226,918
Taxes Receivable	18,170	15,745
Accounts Receivable	0	7,931
Due from Other Funds	0	2,688
Due from Other Governmental Units	1,488,309	1,479,337
Inventory	13,576	3,925
Investments	3,000,509	2,275,663
TOTAL ASSETS	\$ 4,957,388	\$ 4,012,207
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 139,020	\$ 93,101
Due to Other Funds	40,981	26,464
Accrued Expenses	408,764	420,697
Salaries Payable	587,896	589,018
Deferred Revenue	82,063	12,426
Total Liabilities	\$ 1,258,724	\$ 1,141,706
<u>FUND BALANCE</u>		
Reserved for:		
Inventory	\$ 13,576	\$ 3,925
Unreserved		
Undesignated	3,685,088	2,866,576
Total Fund Balance	\$ 3,698,664	\$ 2,870,501
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,957,388	\$ 4,012,207

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources	\$ 1,666,458	\$ 1,490,690
State Sources	8,075,956	8,095,262
Federal Sources	749,149	802,866
Other Transactions	591,966	243,979
Total Revenues	\$ 11,083,529	\$ 10,632,797
<u>EXPENDITURES</u>		
Instruction		
Basic Programs		
Elementary	\$ 1,927,118	\$ 1,833,760
Middle School	1,138,553	1,374,826
Secondary	1,682,001	1,551,094
Pre-School	162,361	152,623
Driver Education	0	658
Added Needs		
Special Education	850,066	784,716
Compensatory Education	762,896	852,543
Supporting Services		
Pupil		
Guidance Services	236,757	188,093
Health Services	0	866
Instructional Staff		
Educational Media Services	100,412	205,502
Professional Development	42,848	61,085
General Administration		
Board of Education	44,460	45,883
Executive Administration	199,232	296,348
School Administration		
Office of the Principal	706,103	789,935
Business		
Fiscal Services	189,836	167,596
Other Business Services	19,859	9,692
Technology Coordinator	158,871	204,280

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
Operation and Maintenance of Plant	1,207,015	1,030,739
Pupil Transportation Services	641,504	743,817
Facilities Acquisition	16,308	0
	<hr/>	<hr/>
Total Expenditures	\$ 10,086,200	\$ 10,294,056
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ 997,329	\$ 338,741
 <u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out	(169,166)	(161,076)
	<hr/>	<hr/>
Net Change in Fund Balance	\$ 828,163	\$ 177,665
 <u>FUND BALANCE</u> - Beginning of Year	 2,870,501	 2,692,836
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 3,698,664	\$ 2,870,501
	<hr/> <hr/>	<hr/> <hr/>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN
GENERAL FUND
COMPARATIVE ANALYSIS OF REVENUES
YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>LOCAL SOURCES</u>		
Property Tax Levy	\$ 1,438,667	\$ 1,357,255
Penalties and Interest on Delinquent Taxes	289	156
Tuition		
Preschool	6,710	5,458
Driver's Education	0	5,390
Earnings on Investments and Deposits	91,527	32,610
Other Local Revenues		
Miscellaneous		
Insurance Refunds and Claims	85,194	28,019
Universal Service Fund	8,175	40,772
Other	35,896	21,030
Total Local Sources	<u>\$ 1,666,458</u>	<u>\$ 1,490,690</u>
<u>STATE SOURCES</u>		
Grants-In-Aid Unrestricted		
Foundation Allowance	\$ 7,376,236	\$ 7,428,127
Golden Apple	3,124	3,206
Grants-In-Aid Restricted		
State School Aid		
Early Childhood Education	132,000	132,000
Special Education	262,129	242,601
Gifted Program	0	186
At-Risk	291,898	273,602
Durant Settlement	10,545	10,545
Driver Education	0	4,954
Payments in Lieu of Taxes		
Swamp Tax	24	41
Total State Sources	<u>\$ 8,075,956</u>	<u>\$ 8,095,262</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN
GENERAL FUND
COMPARATIVE ANALYSIS OF REVENUES
YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>FEDERAL SOURCES</u>		
Grants-In-Aid Restricted		
Passed Through the State of Michigan		
Title I	\$ 356,619	\$ 383,801
Title I - Carryover	0	32,501
Title VA Innovative Programs	10,132	15,135
Title II-D Technology Grant	6,653	9,754
Title II-A Improving Teacher Quality	107,822	109,395
Drug Free Schools	10,481	12,678
Freedom to Learn	2,000	111,304
School Reform	214,949	94,000
Passed Through the Intermediate School District		
Medicaid Outreach	6,275	8,419
Passed Through Family Independence Agency		
Family Preservation/Support Services	24,500	20,500
Passed Through Department of Natural Resources		
National Forest	9,718	5,379
	<hr/>	<hr/>
Total Federal Sources	\$ 749,149	\$ 802,866
	<hr/>	<hr/>
<u>OTHER TRANSACTIONS</u>		
Transfers from Other Governmental Units		
Intermediate School Districts		
Transition Grant	\$ 28,786	\$ 28,550
Medicaid Caseload Coordination	51,289	38,972
Miscellaneous	6,698	20,935
Special Education	484,946	131,303
Special Education - Transportation	17,272	21,219
Mini-Grant	2,975	0
Sale of Fixed Assets	0	3,000
	<hr/>	<hr/>
Total Other Transactions	\$ 591,966	\$ 243,979
	<hr/>	<hr/>
TOTAL REVENUES	\$ 11,083,529	\$ 10,632,797
	<hr/> <hr/>	<hr/> <hr/>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30, 2006

<u>INSTRUCTION</u>	<u>2006</u>	<u>2005</u>
<u>Basic Programs</u>		
<u>Elementary</u>		
Salaries	\$ 1,173,765	\$ 1,139,893
Employee Benefits	598,822	544,103
Purchased Services	97,530	91,344
Supplies and Materials	37,564	39,345
Capital Outlay	18,738	15,869
Other Expense	699	3,206
	<u>\$ 1,927,118</u>	<u>\$ 1,833,760</u>
<u>Middle School</u>		
Salaries	\$ 682,563	\$ 783,112
Employee Benefits	402,310	413,530
Purchased Services	70	409
Supplies and Materials	32,921	35,933
Capital Outlay	18,327	15,248
Other Expense	2,362	126,594
	<u>\$ 1,138,553</u>	<u>\$ 1,374,826</u>
<u>Secondary</u>		
Salaries	\$ 962,991	\$ 926,661
Employee Benefits	511,141	520,421
Purchased Services	91,135	29,755
Supplies and Materials	75,553	50,307
Capital Outlay	36,389	18,986
Other Expense	4,792	4,964
	<u>\$ 1,682,001</u>	<u>\$ 1,551,094</u>
<u>Pre-School</u>		
Salaries	\$ 84,965	\$ 88,895
Employee Benefits	73,824	62,011
Purchased Services	1,784	313
Supplies and Materials	1,788	1,404
	<u>\$ 162,361</u>	<u>\$ 152,623</u>
<u>Driver Education</u>		
Salaries	\$ 0	\$ 540
Employee Benefits	0	118
	<u>\$ 0</u>	<u>\$ 658</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>Added Needs</u>		
<u>Special Education</u>		
Salaries	\$ 526,395	\$ 504,807
Employee Benefits	291,912	253,560
Purchased Services	23,855	15,866
Supplies and Materials	7,904	10,483
	<u>\$ 850,066</u>	<u>\$ 784,716</u>
 <u>Compensatory Education</u>		
Salaries	\$ 492,024	\$ 536,918
Employee Benefits	256,283	273,805
Purchased Services	13,566	31,679
Supplies and Materials	1,023	351
Other Expense	0	9,790
	<u>\$ 762,896</u>	<u>\$ 852,543</u>
 <u>SUPPORTING SERVICES</u>		
<u>Pupil</u>		
<u>Guidance Services</u>		
Salaries	\$ 148,242	\$ 117,986
Employee Benefits	72,467	56,938
Purchased Services	15,817	13,169
Supplies and Materials	231	0
	<u>\$ 236,757</u>	<u>\$ 188,093</u>
<u>Health Services</u>		
Purchased Services	\$ 0	\$ 866
 <u>Instructional Staff</u>		
<u>Educational Media Services</u>		
Salaries	\$ 45,025	\$ 115,182
Employee Benefits	42,813	71,976
Purchased Services	0	344
Supplies and Materials	2,010	0
Capital Outlay	10,564	18,000
	<u>\$ 100,412</u>	<u>\$ 205,502</u>
<u>Professional Development</u>		
Employee Benefits	\$ 11,866	\$ 13,813
Purchased Services	30,982	47,272
	<u>\$ 42,848</u>	<u>\$ 61,085</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>General Administration</u>		
<u>Board of Education</u>		
Salaries	\$ 1,050	\$ 2,793
Purchased Services	40,473	40,398
Other Expense	2,937	2,692
	<u>\$ 44,460</u>	<u>\$ 45,883</u>
<u>Executive Administration</u>		
Salaries	\$ 143,312	\$ 157,673
Employee Benefits	51,246	134,469
Purchased Services	2,029	2,886
Supplies and Materials	2,439	1,066
Other Expense	206	254
	<u>\$ 199,232</u>	<u>\$ 296,348</u>
<u>School Administration</u>		
<u>Office of the Principal</u>		
Salaries		
School Direction and Management	\$ 234,068	\$ 276,853
Secretarial-Clerical-Bookkeeper	235,679	230,067
Employee Benefits	235,221	281,947
Purchased Services	1,030	1,068
Supplies and Materials	105	0
	<u>\$ 706,103</u>	<u>\$ 789,935</u>
<u>Business</u>		
<u>Fiscal Services</u>		
Salaries	\$ 113,339	\$ 100,209
Employee Benefits	57,874	49,956
Purchased Services	8,154	6,868
Supplies and Materials	10,082	9,231
Capital Outlay	83	357
Other Expense	304	975
	<u>\$ 189,836</u>	<u>\$ 167,596</u>
<u>Other Business Services</u>		
Employee Benefits	\$ 16,102	\$ 7,392
Purchased Services	525	0
Other Expense	3,232	2,300
	<u>\$ 19,859</u>	<u>\$ 9,692</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL FUND
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30, 2006

	2006	2005
<u>Technology Coordination</u>		
Salaries	\$ 51,868	\$ 50,300
Employee Benefits	34,518	25,303
Purchased Services	50,554	46,041
Capital Outlay	20,931	82,636
Other Expense	1,000	0
	<u>\$ 158,871</u>	<u>\$ 204,280</u>
<u>Operation and Maintenance of Plant</u>		
Salaries	\$ 297,464	\$ 310,761
Employee Benefits	198,474	204,142
Purchased Services	645,256	463,552
Supplies and Materials	41,214	32,561
Capital Outlay	23,914	19,505
Other Expense	693	218
	<u>\$ 1,207,015</u>	<u>\$ 1,030,739</u>
<u>Pupil Transportation Services</u>		
Salaries	\$ 274,244	\$ 281,579
Employee Benefits	228,749	213,305
Purchased Services	3,343	2,080
Supplies and Materials	122,106	130,123
Capital Outlay	10,446	115,116
Other Expense	2,616	1,614
	<u>\$ 641,504</u>	<u>\$ 743,817</u>
<u>Facilities Acquisition</u>		
Purchased Services	<u>\$ 16,308</u>	<u>\$ 0</u>
 Total Expenditures	 \$ 10,086,200	 \$ 10,294,056
 <u>OTHER FINANCING USES</u>		
Transfers Out		
School Service Fund		
Athletics	<u>169,166</u>	<u>161,076</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u><u>\$ 10,255,366</u></u>	 <u><u>\$ 10,455,132</u></u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	TOTALS	
			2006	2005
<u>ASSETS</u>				
Cash	\$ 2,975	\$ 40,327	\$ 43,302	\$ 53
Account Receivable	892	0	892	474
Due from Other Funds	2,807	0	2,807	0
Due from Other Governments	3,745	0	3,745	3,546
Inventory - Supplies	770	0	770	725
Inventory - Food	3,096	0	3,096	3,771
Investments	0	0	0	38,203
TOTAL ASSETS	\$ 14,285	\$ 40,327	\$ 54,612	\$ 46,772
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds				
General Fund	\$ 0	\$ 0	\$ 0	\$ 2,688
Deferred Revenue	0	0	0	5
Total Liabilities	\$ 0	\$ 0	\$ 0	\$ 2,693
<u>FUND BALANCE</u>				
Reserved for Inventory	\$ 3,866	\$ 0	\$ 3,866	\$ 4,496
Unreserved				
Designated for:				
Athletic Activities	0	40,327	40,327	38,203
Food Service	10,419	0	10,419	1,380
Total Fund Balance	\$ 14,285	\$ 40,327	\$ 54,612	\$ 44,079
TOTAL LIABILITIES AND FUND BALANCE	\$ 14,285	\$ 40,327	\$ 54,612	\$ 46,772

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	TOTALS	
			2006	2005
<u>REVENUES</u>				
Local Sources	\$ 151,390	\$ 58,108	\$ 209,498	\$ 224,086
State Sources	19,032	0	19,032	16,890
Federal Sources	309,706	0	309,706	291,496
Total Revenues	\$ 480,128	\$ 58,108	\$ 538,236	\$ 532,472
<u>EXPENDITURES</u>				
Salaries	\$ 129,932	\$ 130,592	\$ 260,524	\$ 265,218
Employee Benefits	135,248	28,951	164,199	156,680
Purchased Services	9,524	48,065	57,589	56,601
Supplies and Materials	195,065	10,026	205,091	202,766
Other Expenses	1,950	7,516	9,466	16,779
Total Expenditures	\$ 471,719	\$ 225,150	\$ 696,869	\$ 698,044
Excess (Deficiency) of Revenues Over Expenditures	\$ 8,409	\$ (167,042)	\$ (158,633)	\$ (165,572)
<u>OTHER FINANCING SOURCES</u>				
Transfers In				
General Fund	0	169,166	169,166	161,076
Net Change in Fund Balance	\$ 8,409	\$ 2,124	\$ 10,533	\$ (4,496)
<u>FUND BALANCE - Beginning of Year</u>	5,876	38,203	44,079	48,575
<u>FUND BALANCE - End of Year</u>	\$ 14,285	\$ 40,327	\$ 54,612	\$ 44,079

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHOOL SERVICE FUND - FOOD SERVICE

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 2,975	\$ 53
Accounts Receivable	892	474
Due from Other Funds	2,807	0
Due from Other Governments	3,745	3,546
Inventory - Supplies	770	725
Inventory - Food	3,096	3,771
	<hr/>	<hr/>
TOTAL ASSETS	\$ 14,285	\$ 8,569
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 2,688
Deferred Revenue	0	5
	<hr/>	<hr/>
Total Liabilities	\$ 0	\$ 2,693
	<hr/>	<hr/>
<u>FUND BALANCE</u>		
Reserved for Inventory	\$ 3,866	\$ 4,496
Unreserved		
Designated for Food Service	10,419	1,380
	<hr/>	<hr/>
Total Fund Balance	\$ 14,285	\$ 5,876
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 14,285	\$ 8,569
	<hr/>	<hr/>

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

SCHOOL SERVICE FUND - FOOD SERVICE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources			
Food Sales to Pupils	\$ 140,000	\$ 137,667	\$ 147,090
Food Sales to Adults	5,800	5,295	6,192
Earnings on Investments and Deposits	116	375	116
Miscellaneous			
Headstart and Other	11,700	8,053	4,641
State Sources			
State Aid	16,500	19,032	16,890
Federal Sources			
Federal Aid	245,000	281,507	258,197
USDA Donated Entitlement Commodities	24,000	23,354	28,097
USDA Donated Bonus Commodities	4,800	4,845	5,202
Total Revenues	\$ 447,916	\$ 480,128	\$ 466,425
<u>EXPENDITURES</u>			
Salaries			
Cooks and Assistants	\$ 120,600	\$ 129,932	\$ 136,208
Employee Benefits			
Health, Life and Dental Insurance	98,000	104,233	98,647
Retirement	19,706	21,079	19,933
Employer Social Security	9,226	9,936	10,420
Unemployment	0	0	399
Purchased Services			
Audit	1,500	1,500	1,500
Trash Removal	4,000	4,826	3,942
Repairs	4,000	3,198	4,090
Supplies and Materials			
Food Purchases	135,000	133,641	124,492

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHOOL SERVICE FUND - FOOD SERVICE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
USDA Delivery	27,000	22,847	26,890
USDA Donated Commodities	31,000	28,199	33,299
Other Supplies	8,500	10,378	7,877
Other Expenses			
Sales Tax - Adult Lunches	400	300	364
Miscellaneous	1,800	1,650	1,628
Total Expenditures	\$ 460,732	\$ 471,719	\$ 469,689
Excess (Deficiency) of Revenues Over Expenditures	\$ (12,816)	\$ 8,409	\$ (3,264)
<u>FUND BALANCE</u> - Beginning of Year	5,876	5,876	9,140
<u>FUND BALANCE</u> - End of Year	\$ (6,940)	\$ 14,285	\$ 5,876

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHOOL SERVICE FUND - ATHLETIC ACTIVITIES

COMPARATIVE BALANCE SHEET
JUNE 30,

	2006	2005
	<hr/>	
<u>ASSETS</u>		
Cash	\$ 40,327	\$ 0
Investments	0	38,203
	<hr/>	
TOTAL ASSETS	\$ 40,327	\$ 38,203
	<hr/>	
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved		
Designated for Athletic Activities	40,327	38,203
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 40,327	\$ 38,203
	<hr/>	

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

SCHOOL SERVICE FUND - ATHLETIC ACTIVITIES

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Local Sources			
Admissions	\$ 30,000	\$ 34,873	\$ 40,696
Donations	6,000	6,000	6,220
District/Regional Meets	100	3,363	5,123
Sale of Supplies	500	2,766	3,625
Tournament Entry Fees	6,000	6,887	5,690
Concession	3,500	4,219	4,693
Total Revenues	\$ 46,100	\$ 58,108	\$ 66,047
<u>EXPENDITURES</u>			
Salaries			
Coaches	\$ 134,680	\$ 130,592	\$ 129,010
Employee Benefits			
Retirement	22,070	18,996	17,208
Employer Social Security	10,303	9,955	10,073
Purchased Services			
Officials	22,000	19,755	19,954
Game Workers	2,500	1,165	1,235
Registrations, Dues and Entry Fees	7,000	5,717	5,585
Repairs, Equipment and Uniforms	22,000	21,428	20,295
Supplies and Materials			
Athletic Supplies	10,000	4,137	4,902
Awards and Trophies	6,000	5,889	5,306
Other Expenses			
Mileage and Conferences	1,700	614	2,367
Concession	0	753	0
District/Regional Meets	5,500	4,691	11,442
Miscellaneous	5,600	1,458	978
Total Expenditures	\$ 249,353	\$ 225,150	\$ 228,355

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHOOL SERVICE FUND - ATHLETIC ACTIVITIES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (203,253)	\$ (167,042)	\$ (162,308)
<u>OTHER FINANCING SOURCES</u>			
Transfers In - General Fund	167,053	169,166	161,076
Net Change in Fund Balance	\$ (36,200)	\$ 2,124	\$ (1,232)
<u>FUND BALANCE</u> - Beginning of Year	36,288	38,203	39,435
<u>FUND BALANCE</u> - End of Year	\$ 88	\$ 40,327	\$ 38,203

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

DEBT RETIREMENT FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

	1999 PINE RIVER DEBT	1998 DURANT DEBT	TOTAL	
			2006	2005
<u>ASSETS</u>				
Taxes Receivable	\$ 2,566	\$ 0	\$ 2,566	\$ 3,395
Due from Other Funds	38,174	0	38,174	26,464
Investments	256,741	0	256,741	263,626
TOTAL ASSETS	\$ 297,481	\$ 0	\$ 297,481	\$ 293,485
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 691
<u>FUND BALANCE</u>				
Reserved for Debt Retirement	297,481	0	297,481	292,794
TOTAL LIABILITIES AND FUND BALANCE	\$ 297,481	\$ 0	\$ 297,481	\$ 293,485

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

DEBT RETIREMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	1999 PINE RIVER DEBT	1998 DURANT DEBT	TOTAL	
			2006	2005
<u>REVENUES</u>				
Local Sources				
Property Tax Levy	\$ 560,306	\$ 0	\$ 560,306	\$ 561,161
Earnings on Investments and Deposits	9,834	0	9,834	3,225
Miscellaneous	691	0	691	790
State Sources				
State Aid	0	7,405	7,405	0
Total Revenues	\$ 570,831	\$ 7,405	\$ 578,236	\$ 565,176
<u>EXPENDITURES</u>				
Redemption of Serial Bonds	\$ 265,000	\$ 0	\$ 265,000	\$ 245,000
Interest on Debt	299,868	7,405	307,273	316,912
Dues and Fees	1,276	0	1,276	1,500
Total Expenditures	\$ 566,144	\$ 7,405	\$ 573,549	\$ 563,412
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,687	\$ 0	\$ 4,687	\$ 1,764
<u>FUND BALANCE</u> - Beginning of Year	292,794	0	292,794	291,030
<u>FUND BALANCE</u> - End of Year	\$ 297,481	\$ 0	\$ 297,481	\$ 292,794

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

FIDUCIARY FUND TYPES
COMBINING BALANCE SHEET

JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

		PRIVATE PURPOSE	AGENCY FUNDS		TOTALS	
		TRUST FUND	STUDENT ACCOUNTS	ACTIVITY ACCOUNTS	2006	2005
<u>ASSETS</u>						
Cash		\$ 0	\$ 43,058	\$ 33,176	\$ 76,234	\$ 60,928
Investments		28,041	0	14,684	42,725	39,961
TOTAL ASSETS		<u>\$ 28,041</u>	<u>\$ 43,058</u>	<u>\$ 47,860</u>	<u>\$ 118,959</u>	<u>\$ 100,889</u>
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Due to Groups and Organizations		\$ 0	\$ 43,058	\$ 47,860	\$ 90,918	\$ 73,421
<u>FUND BALANCE</u>						
Reserved for						
Student Scholarships		28,041	0	0	28,041	27,468
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 28,041</u>	<u>\$ 43,058</u>	<u>\$ 47,860</u>	<u>\$ 118,959</u>	<u>\$ 100,889</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

PRIVATE PURPOSE TRUST FUND
MILDRED LARSON SCHOLARSHIP

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Earnings on Investments	\$ 1,073	\$ 506
<u>EXPENDITURES</u>		
Scholarships Awarded	<u>500</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 573	\$ 506
<u>FUND BALANCE</u> - Beginning of Year	<u>27,468</u>	<u>26,962</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 28,041</u></u>	<u><u>\$ 27,468</u></u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

AGENCY FUND
STUDENT ACCOUNTS

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 7/01/05	RECEIPTS (INCLUDING TRANSFERS)	DISBURSEMENTS	BALANCE 6/30/06
Band	\$ 189	\$ 1,631	\$ 1,097	\$ 723
Band Boosters	8,745	6,710	11,313	4,142
Buckaneer (School Paper)	(524)	317	50	(257)
Choir	159	0	310	(151)
Class of 2000	0	0	448	(448)
Class of 2001	951	0	0	951
Class of 2004	843	0	0	843
Class of 2005	2,727	0	55	2,672
Class of 2006	1,034	1,853	2,341	546
Class of 2007	885	1,826	2,643	68
Class of 2008	1,058	2,605	1,733	1,930
Class of 2009	270	3,153	1,750	1,673
Class of 2010	156	1,896	1,135	917
Class of 2011	810	5,628	5,792	646
Class of 2012	0	1,433	1,241	192
Color Guard	39	0	0	39
Destination	5,484	15,168	10,030	10,622
Drama Club - HS	2,849	2,670	2,273	3,246
Drama Club - MS	1,283	405	447	1,241
Europe Trip	0	0	1,615	(1,615)
Fedewa D.I. Scholarship	4,500	0	0	4,500
German	1,586	2,474	3,735	325
"Jean" Benefit	66	301	237	130
Kindergarten Snack	3	210	0	213
Middle School Jean Account	0	675	250	425
Middle School Flower Fund	(2)	150	113	35
Middle School Pop Fund	3,122	3,010	1,882	4,250
N.H.S.	684	3,153	3,159	678
N.J.H.S.	533	447	339	641
Omega Project	94	0	0	94

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

AGENCY FUND
STUDENT ACCOUNTS

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 7/01/05	RECEIPTS (INCLUDING TRANSFERS)	DISBURSEMENTS	BALANCE 6/30/06
Scholarship	29,214	6,108	4,500	30,822
Spanish Trip	2,245	28,105	34,831	(4,481)
Class Projects (Benson)	12	1,622	1,441	193
Student Council - MS	720	2,666	2,020	1,366
Student Council - HS	452	3,894	3,718	628
S.A.D.D. - MS	205	0	0	205
S.A.D.D. - HS	105	0	0	105
Vending Machine	1,211	2,598	1,872	1,937
Yearbook - MS	(286)	1,616	1,882	(552)
Yearbook - HS	(32,341)	9,818	3,913	(26,436)
	<u>\$ 39,081</u>	<u>\$ 112,142</u>	<u>\$ 108,165</u>	<u>\$ 43,058</u>
Represented by				
Assets				
Cash	<u>\$ 39,081</u>			<u>\$ 43,058</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 39,081</u>			<u>\$ 43,058</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

AGENCY FUND
ACTIVITY ACCOUNTS

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 7/01/05	RECEIPTS (INCLUDING TRANSFERS)	DISBURSEMENTS	BALANCE 6/30/06
Administrative Flower Fund	\$ 0	\$ 63	\$ 57	\$ 6
Art Department	272	10	0	282
Band Special Project	1,135	8,012	11,230	(2,083)
Best Scholarship	280	70	280	70
Cheerleading	959	2,264	1,499	1,724
Cheerleading - MS	0	108	112	(4)
Coaches Golf	5,597	9,697	9,141	6,153
Cross Country	600	520	100	1,020
Elementary Library	164	0	0	164
Football	729	7,929	7,782	876
Football M.S.	271	0	0	271
Girls Basketball	(921)	4,031	2,235	875
Girls Track	0	520	0	520
Haan Craft Resale	(247)	0	0	(247)
High School Library	1,593	1,783	977	2,399
Leroy Activities	1,662	1,190	3,052	(200)
Luther Activities	2,077	4,786	1,435	5,428
NSF Chargebacks	(1,537)	0	290	(1,827)
P.R. Golf Classic	8,395	0	1,699	6,696
Revolving Fund	619	7,420	8,697	(658)
Shop Class	267	2,520	328	2,459
Shop "Chair" Account	785	937	268	1,454
Ski Club	228	0	0	228
Soccer	1,164	2,085	2,708	541
Softball	(184)	2,640	1,811	645
Special Activities - MS	922	3,426	1,981	2,367
Special Activities - HS	2,090	5,344	3,741	3,693
Summer Basketball	(125)	3,705	2,334	1,246
Summer Camps	0	200	0	200
Tech Dept.	1,677	843	1,278	1,242
Tustin Activities	1,152	1,628	1,240	1,540

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

AGENCY FUND
ACTIVITY ACCOUNTS

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 7/01/05	RECEIPTS (INCLUDING TRANSFERS)	DISBURSEMENTS	BALANCE 6/30/06
Varsity Baseball	1,179	4,672	3,788	2,063
Varsity Track	(565)	803	100	138
Varsity Volleyball	1,304	2,901	1,797	2,408
Volleyball M.S.	748	1,009	981	776
Weight Room	573	1,730	507	1,796
Wrestling Resale	280	6,932	4,880	2,332
Youth Basketball	1,197	553	483	1,267
	<u>\$ 34,340</u>	<u>\$ 90,331</u>	<u>\$ 76,811</u>	<u>\$ 47,860</u>
Represented by				
Assets				
Cash	\$ 21,847			\$ 33,176
Investments	0			14,684
Total Assets	<u>\$ 21,847</u>			<u>\$ 47,860</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 34,340</u>			<u>\$ 47,860</u>

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

SCHEDULE OF 2005 TAX ROLL

YEAR ENDED JUNE 30, 2006

	STATE TAXABLE VALUATION	TAXES ASSESSED	TAXES COLLECTED	TAXES RETURNED DELINQUENT
<u>GENERAL FUND (18.0000 MILLS)</u>				
<u>OSCEOLA COUNTY</u>				
Burdell Township	\$ 10,006,696	180,121	\$ 148,271	\$ 31,850
Cedar Township	4,335,199	78,034	69,714	8,320
Hartwick Township	334,851	6,027	6,027	0
Leroy Township	9,486,131	170,750	151,501	19,249
Lincoln Township	4,968,957	89,441	75,175	14,266
Rose Lake Township	20,116,710	362,101	328,976	33,125
Sherman Township	6,742,719	121,369	110,080	11,289
<u>WEXFORD COUNTY</u>				
Cherry Grove Township	238,661	4,296	2,785	1,511
Clam Lake Township	728,564	13,114	12,082	1,032
<u>LAKE COUNTY</u>				
Dover Township	4,613,835	83,049	76,120	6,929
Ellsworth Township	8,653,850	155,769	138,320	17,449
Newkirk Township	8,297,380	149,353	127,808	21,545
Pinora Township	2,100,033	37,801	31,192	6,609
	<u>\$ 80,623,586</u>	<u>\$ 1,451,225</u>	<u>\$ 1,278,051</u>	<u>\$ 173,174</u>
<u>DEBT RETIREMENT FUND (3.0000 MILLS)</u>				
<u>(1999 BOND ISSUE)</u>				
<u>OSCEOLA COUNTY</u>				
Burdell Township	\$ 29,804,662	\$ 89,414	\$ 76,847	\$ 12,567
Cedar Township	8,005,910	24,018	19,960	4,058
Hartwick Township	892,432	2,677	2,533	144
Leroy Township	26,325,636	78,977	67,415	11,562
Lincoln Township	12,558,400	37,675	30,952	6,723
Rose Lake Township	40,692,143	122,076	108,486	13,590
Sherman Township	17,766,707	53,300	47,236	6,064
<u>WEXFORD COUNTY</u>				
Cherry Grove Township	726,447	2,179	1,768	411
Clam Lake Township	2,249,003	6,747	6,049	698
<u>LAKE COUNTY</u>				
Dover Township	9,622,990	28,869	24,977	3,892
Ellsworth Township	18,335,676	55,007	46,704	8,303
Newkirk Township	14,751,247	44,254	37,053	7,201
Pinora Township	4,702,173	14,107	11,689	2,418
	<u>\$ 186,433,426</u>	<u>\$ 559,300</u>	<u>\$ 481,669</u>	<u>\$ 77,631</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF 2005 INDUSTRIAL FACILITIES TAX ROLL
YEAR ENDED JUNE 30, 2006

	STATE TAXABLE VALUATION	TAXES ASSESSED	TAXES COLLECTED	TAXES RETURNED DELINQUENT
<u>GENERAL FUND (9.0000 MILLS)</u>				
<u>OSCEOLA COUNTY</u>				
Leroy Township				
State Share	\$ 605,552	\$ 5,450	\$ 5,450	\$ 0
Lincoln Township				
State Share	80,750	727	727	0
	<u>\$ 686,302</u>	<u>\$ 6,177</u>	<u>\$ 6,177</u>	<u>\$ 0</u>
<u>DEBT RETIREMENT FUND (1.5000 MILLS)</u>				
<u>(1999 BOND ISSUE)</u>				
<u>OSCEOLA COUNTY</u>				
Leroy Township				
School District Share	\$ 605,552	\$ 908	\$ 908	\$ 0
Lincoln Township				
School District Share	80,750	121	121	0
	<u>\$ 686,302</u>	<u>\$ 1,029</u>	<u>\$ 1,029</u>	<u>\$ 0</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

COMPARATIVE SCHEDULE OF INVESTMENTS
JUNE 30,

	2006		2005	
	INTEREST		INTEREST	
	RATE	AMOUNT	RATE	AMOUNT
<u>GENERAL FUND</u>				
Michigan School District	0.00% to		0.00% to	
Liquid Asset Fund Plus	5.27%	\$ 3,000,509	2.76%	\$ 2,275,663
<u>SCHOOL SERVICE FUND</u>				
Michigan School District	0.00% to		0.00% to	
Liquid Asset Fund Plus	5.27%	\$ 0	2.76%	\$ 38,203
<u>DEBT RETIREMENT FUND</u>				
Michigan School District	0.00% to		0.00% to	
Liquid Asset Fund Plus	5.27%	\$ 256,741	2.76%	\$ 263,626
<u>AGENCY FUND</u>				
Michigan School District	0.00% to		0.00% to	
Liquid Asset Fund Plus	5.27%	\$ 42,725	2.76%	\$ 39,961

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF BONDS PAYABLE - 1998 BOND ISSUE
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1998 School Improvement Bond (Durant Settlement)
<u>PURPOSE</u>	This bond, including interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 to the School District.
<u>DATE OF ISSUE</u>	November 24, 1998
<u>INTEREST PAYABLE</u>	May 15th, of each year
<u>AMOUNT OF ISSUE</u>	\$ 105,448
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 38,081
During Current Year	0
	<u>38,081</u>
<u>BALANCE OUTSTANDING - June 30, 2006</u>	<u>\$ 67,367</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
May 15, 2007	4.070 %	\$ 34,943	\$ 6,305	\$ 28,638
May 15, 2008	4.070 %	7,405	1,576	5,829
May 15, 2009	4.070 %	7,405	1,339	6,066
May 15, 2010	4.070 %	7,405	1,093	6,312
May 15, 2011	4.070 %	7,405	835	6,570
May 15, 2012	4.070 %	7,405	568	6,837
May 15, 2013	4.070 %	7,404	289	7,115
		<u>\$ 79,372</u>	<u>\$ 12,005</u>	<u>\$ 67,367</u>

REDEMPTION OF BONDS PRIOR TO MATURITY This bond is not subject to redemption prior to maturity by the School District and the School District may not issue any other bonds or obligations for the purpose of refunding this bond.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF BONDS PAYABLE - 1999 BOND ISSUE
JUNE 30, 2006

DATE OF ISSUE

June 2, 1999

PURPOSE AND SECURITY

The Bonds were issued for the purpose of (i) refunding all of the School District's 1995 School Building and Site Bonds, dated August 1, 1995, maturing on May 1 in the years 2006 through 2021 (the "Prior Bonds"); and (ii) paying the costs of issuing the Bonds.

The Bonds were issued by the School District pursuant to the provisions of Act 202, Public Acts of Michigan 1943, as amended, Act 451, Public Acts of Michigan, 1976, as amended, and resolutions adopted by the Board of Education of the School District on January 11, 2001, and May 10, 2001.

The Bonds are a full faith and credit unlimited tax general obligation of the School District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the School District without limitation as to rate or amount.

INTEREST PAYABLE

May 1, and November 1,

INTEREST RATES

3.90% to 5.00%

AMOUNT OF ISSUE

\$ 6,670,000

AMOUNT REDEEMED

Prior to Current Year

\$ 205,000

During Current Year

265,000

470,000

BONDS OUTSTANDING - June 30, 2006

\$ 6,200,000

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF BONDS PAYABLE - 1999 BOND ISSUE
JUNE 30, 2006

<u>DUE DATES</u>	<u>INTEREST RATE</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2006		\$ 144,501	\$ 144,501	
May 1, 2007	4.20 %	429,501	144,501	\$ 285,000
November 1, 2007		138,516	138,516	
May 1, 2008	4.25 %	438,516	138,516	300,000
November 1, 2008		132,141	132,141	
May 1, 2009	4.35 %	452,141	132,141	320,000
November 1, 2009		125,181	125,181	
May 1, 2010	4.35 %	465,181	125,181	340,000
November 1, 2010		117,786	117,786	
May 1, 2011	4.40 %	472,786	117,786	355,000
November 2011		109,976	109,976	
May 1, 2012	4.45 %	479,976	109,976	370,000
November 1, 2012		101,744	101,744	
May 1, 2013	4.55 %	491,744	101,744	390,000
November 1, 2013		92,871	92,871	
May 1, 2014	4.60 %	502,871	92,871	410,000
November 1, 2014		83,441	83,441	
May 1, 2015	4.70 %	513,441	83,441	430,000
November 1, 2015		73,336	73,336	
May 1, 2016	4.75 %	523,336	73,336	450,000
November 1, 2016		62,649	62,649	
May 1, 2017	4.80 %	532,649	62,649	470,000
November 1, 2017		51,369	51,369	
May 1, 2018	4.85 %	546,369	51,369	495,000
November 1, 2018		39,365	39,365	
May 1, 2019	4.90 %	559,365	39,365	520,000
November 1, 2019		26,625	26,625	
May 1, 2020	5.00 %	551,625	26,625	525,000
November 1, 2020		13,500	13,500	
May 1, 2021	5.00 %	553,500	13,500	540,000
		<u>\$ 8,826,002</u>	<u>\$ 2,626,002</u>	<u>\$ 6,200,000</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF BONDS PAYABLE - 1999 BOND ISSUE
JUNE 30, 2006

REDEMPTION OF BONDS PRIOR TO MATURITY

A. Mandatory Redemption of Term Bonds

The Bonds maturing on May 1, 2021 are term bonds (the "Term Bonds") subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount of such Bonds, without premium, together with interest on such Bonds to the redemption date. When Term Bonds are purchased by the School District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Term Bonds affected shall be reduced by the principal amount of the Bonds so redeemed or purchased in the order determined by the School District.

Term Bonds due May 1, 2021

Redemption Dates	Principal Amounts
May 1, 2021 (maturity)	\$ 540,000

REDEMPTION OF BONDS PRIOR TO MATURITY

B. Optional Redemption

The Bonds or portions of Bonds in multiples of \$5,000, maturing on or after May 1, 2010, are subject to redemption prior to maturity at the option of the School District in such order as the School District may determine, by lot within any maturity, on any interest payment date occurring on or after May 1, 2009, at par and accrued interest to the date fixed for redemption.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

PROPERTY VALUATIONS

In accordance with Act 539, Public Acts of Michigan, 1982, and Article IX, Section 3 of the Michigan Constitution, the ad valorem state equalized valuation represents 50% of true cash value. State equalized valuation does not include any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended, or Act 255, Public Acts of Michigan, 1978, as amended. As a result of Proposal A, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps. State Equalized Value is used in the calculation of Debt Margin and True Cash Value.

Taxable property in the School District is assessed by the local municipal assessor, and is subject to review by the County Equalization Department.

<u>YEAR</u>		<u>TAXABLE VALUE</u>	<u>YEAR</u>		<u>TAXABLE VALUE</u>
2005	\$	186,433,426	2000	\$	133,133,168
2004	\$	175,021,707	1999	\$	125,909,067
2003	\$	163,562,010	1998	\$	119,240,654
2002	\$	155,111,348	1997	\$	113,575,913
2001	\$	144,357,470	1996	\$	107,025,142

- * A total of \$ 105,809,840 of the 2005 Taxable Value not including industrial facility tax valuations is classified as homestead property.

Source: Counties of Wexford, Osceola and Lake Equalization Departments.

Per Capita Valuation

2005 Per Capita Taxable Value	\$	31,072
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Industrial Facilities Tax

Act 198 of the Public Acts of Michigan, 1974, as amended ("Act 198"), provides significant property tax incentives to industry to renovate and expand aging plants and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property tax owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem taxes on the facility and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plants and equipment receiving their abatement certificate prior to

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local and intermediate school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for school operating purposes in 1993. For new facility abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as ad valorem property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. It must be emphasized, however, that ad valorem property taxes on land is not reduced in any way since land is specifically excluded under Act 198.

The School District has the following IFT abatements outstanding within its boundaries:

<u>Company</u>	<u>Expires 12/31</u>	<u>Type</u>	<u>2005 Value</u>
Northern Precision Machine Products, Inc.	2007	New	\$ 68,760
Michiana Box & Crate, Inc.	2009	New	80,750
Leroy Tool & Die, Inc.	2010	New	18,037
Advanced Fibermolding, Inc.	2010	New	475,280
Leroy Tool & Die, Inc.	2011	New	43,475
Total			\$ <u>683,302</u>

Source: School District

MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2005 Taxable Value are as follows:

<u>Taxpayer</u>	<u>Taxable Value</u>
Heritage Broadcasting Co.	\$ 1,641,700
Consumer Energy Co.	1,327,778
Michigan Consolidated Gas Co.	1,272,258
Great Lakes Energy	1,096,740
Department of Natural Resources	848,658
Paul and Linda Roose	444,793
Larry and Elaine Gingrich	417,757
Wolverine Power Supply	364,102
McQuestion Excavating	329,602
Lynne Chandonnet	305,921
TOTAL	\$ <u>8,049,309</u>

The Taxable Values of the above taxpayers represent 4.32% of the School District's 2005 Taxable Value of \$ 186,433,426.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

Source: Osceola, Lake and Wexford County Equalization Departments.

TAX RATES (Per \$1,000 of Valuation)

Under Michigan statutes, the property tax base used for levies authorized for school districts is the same as that used for county, township, special authority, and city levies. Each school district, county, township, special authority and city has a geographical definition which constitutes a tax district. Since local school districts and the county overlap either a township or a city, and intermediate school districts overlap local school districts and county boundaries, the result is many different tax rate districts.

School District Tax Rates

	2006	2005	2004	2003	2002
<u>Pine River Area Schools</u>					
Voted	18.0000	18.0000	17.1162	18.0000	18.0000
Debt	3.0000	3.2000	3.5000	3.6000	3.7000
Total	<u>21.0000</u>	<u>21.2000</u>	<u>20.6162</u>	<u>21.6000</u>	<u>21.7000</u>
TOTAL HOMESTEAD	<u>3.0000</u>	<u>3.2000</u>	<u>3.5000</u>	<u>3.6000</u>	<u>3.7000</u>
TOTAL NON-HOMESTEAD	<u>21.0000</u>	<u>21.2000</u>	<u>20.6162</u>	<u>21.6000</u>	<u>21.7000</u>

Other Tax Rates

State Education Fund *	6.0000	6.0000	5.0000	6.0000	6.0000
Osceola County	7.0506	9.1999	9.1661	9.2373	9.2252
Wexford-Missaukee I/S/D	5.9614	5.9853	6.0003	6.0388	6.0597
Lake County	11.2545	11.4961	11.3716	11.5497	11.6748
Wexford County	10.1331	10.1620	10.1660	11.2128	10.1245
Village of Leroy	5.3254	5.3254	5.3254	5.4514	5.6282
Village of Luther	10.0000	10.0000	10.0000	10.0000	10.0000
Village of Tustin	10.0000	10.0000	10.0000	10.0000	10.0000

- * Pursuant to a ballot proposal approved by the electors of the State of Michigan on March 15, 1994, beginning with the December 1, 1994, tax levy, the State of Michigan levies 6.00 mills (5.00 mills for 2004) for school operating purposes on all homestead and non-homestead property located within the School District. The School District levies up to 18.00 mills of voted operating millage on non-homestead property and levies authorized debt millage on all homestead and non-homestead property located with the School District.

Source: School District.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

STATE AID PAYMENTS

Historically, the School District levied taxes for school operating revenues at much higher rates than currently being levied. In 1994, the State of Michigan significantly modified the mechanisms for school finance. The School District receives a state aid foundation allowance per pupil. The District received no increase in the foundation allowance for the fiscal year 2005/2006. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils' state wide.

The following table shows a six year history of the School District's total state aid collections, including categoricals and other amounts, and the per pupil state aid foundation allowance, which reflects the changes in sources of school operating revenue described above:

<u>Year</u>	<u>Total</u>	<u>State Amount Received Per Pupil</u>	<u>Foundation Allowance Per Pupil</u>
2005/2006	\$ 8,094,964	\$ 6,359	\$ 6,875
2004/2005	\$ 8,112,152	\$ 6,054	\$ 6,700
2003/2004	\$ 8,204,749	\$ 6,033	\$ 6,700
2002/2003	\$ 8,334,957	\$ 6,079	\$ 6,700
2001/2002	\$ 8,332,053	\$ 6,007	\$ 6,300
2000/2001	\$ 7,826,563	\$ 5,679	\$ 6,000
1999/2000	\$ 7,256,654	\$ 5,247	\$ 5,696

Source: Michigan Department of Education and School District

TAX LEVIES AND COLLECTIONS

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are payable without interest or penalty on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurers for collection. Osceola, Lake and Wexford Counties annually pay from their Tax Revolving Funds delinquent taxes on real property to all taxing units in the Counties, including the School District, shortly after the date delinquent taxes are returned to the County Treasurers for collection. The payments from these funds have resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

A history of tax levies and collections for the School District is as follows:

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

YEAR	OPERATING TAX LEVY	COLLECTIONS TO MARCH 1, EACH YEAR		COLLECTIONS PLUS FUNDING TO JUNE 30, EACH YEAR	
2005/06	\$ 1,451,225	\$ 1,278,051	88.07 %	\$ 1,445,160	99.58 %
2004/05	\$ 1,357,255	\$ 1,211,263	89.24 %	\$ 1,352,261	99.63 %
2003/04	\$ 1,197,838	\$ 1,055,487	88.12 %	\$ 1,183,623	98.81 %
2002/03	\$ 1,215,185	\$ 1,040,483	85.62 %	\$ 1,206,385	99.28 %
2001/02	\$ 1,132,916	\$ 987,154	87.13 %	\$ 1,127,483	99.52 %
2000/01	\$ 1,043,915	\$ 892,673	85.51 %	\$ 1,037,260	99.36 %
1999/00	\$ 966,480	\$ 827,902	85.66 %	\$ 961,497	99.48 %
1998/99	\$ 962,334	\$ 821,364	85.35 %	\$ 960,372	99.80 %
1997/98	\$ 953,714	\$ 812,194	85.16 %	\$ 953,512	99.98 %
1996/97	\$ 920,509	\$ 780,305	84.77 %	\$ 920,282	99.98 %
1995/96	\$ 883,937	\$ 748,129	84.64 %	\$ 881,669	99.74 %
1994/95	\$ 912,875	\$ 745,879	81.71 %	\$ 878,990	96.29 %

Source: School District

The Tax Revolving Funds are financed through the issuance of General Obligation Limited Tax Notes (GOLTNs). Although the Counties anticipate the continuance of these programs, the ability to issue such GOLTNs is subject to Michigan Department of Treasury approval and market conditions at the time of offering. In addition, Act 206 of 1893, as amended, provides in part that: "The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the counties are not received by the counties for any reason, the counties have full right of recourse against the taxing unit to recover the amount thereof and interest thereon..." On the first Tuesday in May in each year, a tax sale is held by the Counties at which lands delinquent for taxes assessed in the third year preceding the sale, or in a prior year, are sold for the total of the unpaid taxes of those years.

The General Property Tax Act was amended by Act 123 of the Public Acts of Michigan of 1999. Act 123, which was signed by Governor Engler on July 22, 1999, extensively revises the procedures for the collection of delinquent property taxes. Act 123 has the effect of shortening the process for the collection of delinquent taxes from approximately six years (including statutory redemption periods) to less than three years.

LABOR FORCE

A breakdown of the number of employees of Pine River Area Schools and their affiliation with organized groups is as follows:

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

EMPLOYEES	NUMBER	BARGAINING UNIT	CONTRACT EXPIRATION
Administrators	5	Non Affiliated	N/A
Teachers	75	Pine River Ed. Assn./MEA/NEA	8-31-07
Secretaries	6	Pine River Ed. Sup. Assn./MEA/NEA	8-31-06
Aides	11	Pine River Ed. Sup. Assn./MEA/NEA	8-31-06
Custodians	7	Pine River Ed. Sup. Assn./MEA/NEA	8-31-06
Transportation	15	Pine River Ed. Sup. Assn./MEA/NEA	8-31-06
Food Service	7	Pine River Ed. Sup. Assn./MEA/NEA	8-31-06
Central Office Staff	5	Non Affiliated	N/A
TOTAL STAFF	<u>131</u>		

The School District has not experienced a strike by any of its bargaining units within the past twenty years.

PENSION FUND

For the period from October 1, 1997 through September 30, 1998, the School District paid an amount equal to 11.12% of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS") which is administered by the State of Michigan. For the period from October 1, 1999 through September 30, 2000, the applicable percentage is 11.66%. For the period October 1, 2000, through September 30, 2001, the applicable percentage is 12.16%. For the period October 1, 2001 through September 30, 2002, the applicable percentage is 12.17%. For the period October 1, 2002 through September 30, 2004, the applicable percentage is 12.99%. For the period October 1, 2004 through September 30, 2005, the applicable percentage is 14.87%. For the period October 1, 2005 through September 30, 2006 the applicable percentage is 16.34%. These contributions are required by law. The School District's contributions for the past five years are shown below. The School District does not have an unfunded accrued liability under MPERS. For the period October 1, 2006 through September 30, 2006, the applicable percentage is 17.74%.

YEAR ENDING JUNE 30	PAID TO PENSION FUND
2006	\$ 914,071
2005	\$ 840,420
2004	\$ 776,744
2003	\$ 811,992
2002	\$ 770,917
2001	\$ 718,867
2000	\$ 657,781

Effective January 1, 1987, members of MPERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a "member investment plan" ("MIP") which qualifies them for additional benefits. The current contribution rate of 3.9% became effective January 1, 1990, representing a change from the previous contribution rate of 4%. This option to review and adjust the contribution rate is

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

available to MPSERS members, if necessary, every three years. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPSERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

DEBT STATEMENT (As of June 30, 2006)

DIRECT DEBT

DATE ISSUE	PURPOSE	TYPE	INTEREST SPREAD	MATURITIES	AMOUNT OUTSTANDING
11/24/98	School Improvement		4.07%	05-15-06/2013	\$ 67,367
06/02/99	Refunding	UTQ	4.20% - 5.00%	05-01-06/2021	<u>6,200,000</u>
					<u>\$ 6,267,367</u>

SCHOOL ENROLLMENT

Historical enrollment for the School District (Fall Pupil Count Day) is as follows:

SCHOOL YEAR	ENROLLMENT	SCHOOL YEAR	ENROLLMENT
2005/06	1,273	1998/99	1,411
2004/05	1,322	1997/98	1,385
2003/04	1,342	1996/97	1,380
2002/03	1,350	1995/96	1,416
2001/02	1,387	1994/95	1,382
2000/01	1,374	1993/94	1,367
1999/00	1,383	1992/93	1,400

Enrollment by grades - 2005/06 (Fall Pupil Count Day) is as follows:

Kindergarten	77	Seventh	101
First	84	Eighth	95
Second	87	Ninth	108
Third	91	Tenth	111
Fourth	84	Eleventh	133
Fifth	96	Twelfth	72
Sixth	88	Special Education	<u>46</u>
		TOTAL	<u>1,273</u>

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE
JUNE 30, 2006

Projected enrollment - three years hence - (2006/08) is as follows:

K-5	473
6-8	267
9-12	390
Special Education	<u>142</u>
Total	<u><u>1,272</u></u>

Source: School District

GENERAL FUND BUDGET SUMMARY

See Budgetary Comparison Schedule - General Fund on Page 24

PINE RIVER AREA SCHOOLS

LEROY, MICHIGAN

SINGLE AUDIT

JUNE 30, 2006

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Pine River Area Schools
Leroy, Michigan

COMPLIANCE

We have audited the compliance of Pine River Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Pine River Area Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pine River Area Schools' management. Our responsibility is to express opinions on Pine River Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pine River Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination on Pine River Area Schools' compliance with those requirements.

In our opinion, Pine River Area Schools complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

INTERNAL CONTROL OVER COMPLIANCE

The management of Pine River Area Schools' is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pine River Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of Pine River Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements of Pine River Area Schools'. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
Title I Grants to Local Education Agencies								
Project No. 061530-0506	84.010	\$ 356,619	\$ 0	\$ 383,801	\$ 356,619	\$ 356,619	\$ 0	\$ 0
Total	84.010	\$ 356,619	\$ 0	\$ 383,801	\$ 356,619	\$ 356,619	\$ 0	\$ 0
Title V - LEA Allocation								
Project No. 060250-0506	84.298	\$ 10,132	\$ 0	\$ 15,135	\$ 10,132	\$ 10,132	\$ 0	\$ 0
Total	84.298	\$ 10,132	\$ 0	\$ 15,135	\$ 10,132	\$ 10,132	\$ 0	\$ 0
Title II Part D Technology Literacy Challenge								
Project No. 064290-0506	84.318	\$ 6,653	\$ 0	\$ 9,754	\$ 6,653	\$ 6,653	\$ 0	\$ 0
Total	84.318	\$ 6,653	\$ 0	\$ 9,754	\$ 6,653	\$ 6,653	\$ 0	\$ 0
Comprehensive School Reform Demonstration								
Project No. 041880-0405	84.332	\$ 103,847	\$ (9,302)	\$ 94,000	\$ 113,149	\$ 103,847	\$ 0	\$ 0
Project No. 051880-0506	84.332	101,800	0	0	101,800	84,853	16,947	0
Total	84.332	\$ 205,647	\$ (9,302)	\$ 94,000	\$ 214,949	\$ 188,700	\$ 16,947	\$ 0
Title IV - Drug Free Schools and Communities								
Project No. 062860-0506	84.186	\$ 10,481	\$ 0	\$ 10,779	\$ 10,481	\$ 10,481	\$ 0	\$ 0
Total	84.186	\$ 10,481	\$ 0	\$ 10,779	\$ 10,481	\$ 10,481	\$ 0	\$ 0
Title II A - Improving Teacher Quality								
Project No. 060520-0506	84.367	\$ 107,822	\$ 0	\$ 109,395	\$ 107,822	\$ 107,822	\$ 0	\$ 0
Total	84.367	\$ 107,822	\$ 0	\$ 109,395	\$ 107,822	\$ 107,822	\$ 0	\$ 0
Total Passed Through M.D.E.		\$ 697,354	\$ (9,302)	\$ 622,864	\$ 706,656	\$ 680,407	\$ 16,947	\$ 0
Passed Through Intermediate School District (I.S.D.)								
Freedom To Learn								
Project No. 064280-5b	84.318	\$ 2,000	\$ 0	\$ 2,500	\$ 2,000	\$ 2,000	\$ 0	\$ 0
Total U.S. Department of Education		\$ 699,354	\$ (9,302)	\$ 625,364	\$ 708,656	\$ 682,407	\$ 16,947	\$ 0
U.S. Department of Health and Human Services								
Passed Through Michigan Family Independence Agency								
Family Preservation/Support Services								
Project No. SFSC-06-67001	93.556	\$ 24,500	\$ 0	\$ 20,500	\$ 24,500	\$ 24,500	\$ 0	\$ 0
Total	93.556	\$ 24,500	\$ 0	\$ 20,500	\$ 24,500	\$ 24,500	\$ 0	\$ 0
Passed Through Intermediate School District (I.S.D.)								
Medicaid Outreach								
Project No. None	93.778	\$ 6,275	\$ 0	\$ 8,419	\$ 6,275	\$ 6,275	\$ 0	\$ 0
Total U.S. Department of Health and Human Services		\$ 30,775	\$ 0	\$ 28,919	\$ 30,775	\$ 30,775	\$ 0	\$ 0

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S Department of Agriculture								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch								
Section 4 - Total Servings -051960 and 061950	10.555	\$ 33,386	\$ 0	\$ 30,553	\$ 33,386	\$ 33,386	\$ 0	\$ 0
Section 11 - Total Servings - 051960 and 061960	10.555	172,312	0	160,322	172,312	172,312	0	0
Total	10.555	\$ 205,698	\$ 0	\$ 190,875	\$ 205,698	\$ 205,698	\$ 0	\$ 0
National School Lunch Breakfast Program								
Breakfast 051970 and 061970	10.553	\$ 75,809	\$ 0	\$ 67,322	\$ 75,809	\$ 75,809	\$ 0	\$ 0
Total Child Nutrition Cluster		\$ 281,507	\$ 0	\$ 258,197	\$ 281,507	\$ 281,507	\$ 0	\$ 0
Food Distribution								
Entitlement Commodities	10.550	\$ 23,354	\$ 0	\$ 28,097	\$ 23,354	\$ 23,354	\$ 0	\$ 0
Bonus Commodities	10.550	4,845	0	5,202	4,845	4,845	0	0
Total	10.550	\$ 28,199	\$ 0	\$ 33,299	\$ 28,199	\$ 28,199	\$ 0	\$ 0
Total Passed Through M.D.E.		\$ 309,706	\$ 0	\$ 291,496	\$ 309,706	\$ 309,706	\$ 0	\$ 0
Passed Through Lake County								
National Forest								
Schools and Roads Grant	10.665	\$ 9,718	\$ 0	\$ 5,379	\$ 9,718	\$ 9,718	\$ 0	\$ 0
Total U.S. Department of Agriculture		\$ 319,424	\$ 0	\$ 296,875	\$ 319,424	\$ 319,424	\$ 0	\$ 0
Total Federal Financial Assistance		\$ 1,049,553	\$ (9,302)	\$ 951,158	\$ 1,058,855 (B)	\$ 1,032,606 (C)	\$ 16,947	\$ 0

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2006, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources – Per Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ <u>1,049,553</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u>1,049,553</u>

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report Dated July 7, 2006	\$ 961,914
--	------------

Add Items Not on Grant Section Auditor's Report:

Amounts Received as Pass Through from Intermediate School District Medicaid Outreach	\$ 6,275
Amounts Received as Pass Through from Family Independence Agency Family Preservation/Support Services	24,500
Amounts Received as Pass Through from Michigan Department of Education Comprehensive School Reform Demonstration	16,947

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Amounts Received as Pass Through from Intermediate School District		
Freedom to Learn	2,000	
Amounts Received as Payments in Kind		
Food Distribution Program		
Entitlement Commodities	23,354	
Bonus Commodities	4,845	
Amounts Received as Pass Through from Lake County		
National Forest Schools and Roads Grant	<u>9,718</u>	<u>87,639</u>
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards		<u>\$ 1,049,553</u>

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education
Pine River Area Schools
Leroy, Michigan

We have audited the basic financial statements of the Pine River Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Pine River Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect Pine River Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Pine River Area Schools in a separate letter dated August 18, 2006.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Pine River Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Finding 2005-a (from the 2004/2005 fiscal year)

The District has a limited number of people involved in the accounting function due to financial constraints in allocating resources to this activity. This condition hampers the ability of the District to adequately segregate duties to enhance internal control.

The District is aware of this limitation and continues to explore cost effective measures to improve this internal control limitation.

This finding is repeated for the current fiscal year.

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Reportable condition(s) identified:	<u> X </u> Yes	<u> </u> No
Reportable condition(s) identified as material weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No
The programs tested as major programs included:		

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Improving Basic Programs
84.332	Comprehensive School Reform
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

PINE RIVER AREA SCHOOLS
LEROY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

B. Findings – Basic Financial Statements Audit

2006-A

Reportable Conditions:

- a. The relatively small number of people involved in the accounting functions of the District makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not feasible for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Corrective Action Plan

Inadequate segregation of duties

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent James Ganger will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Pine River Area Schools
Leroy, Michigan

Dear Members of the Board and Administrators:

As a result of our audit of the basic financial statements of the Pine River Area Schools for the year ended June 30, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the School District.

Reportable Condition in Internal Controls

The following is a communication that is required by Statements on Auditing Standards Number 60:

In planning and performing our audit of the basic financial statements of the Pine River Area Schools, Leroy, Michigan, for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider being reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the District makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is not a material weakness.

We realize that it is not feasible for the Board to establish a larger accounting staff in order to implement proper segregation of duties. As a possible alternative to improving the segregation of duties, the Board should insure that fidelity bonds are maintained for all persons responsible for handling District funds.

General Comment – Internal Controls Over Cash

The District should continue to monitor its internal controls over cash received, especially related to cash initially remitted to the District at locations other than the central office. These locations would include athletic events, student activity accounts, preschool tuition, and food service. While these amounts may be immaterial to the financial statements taken as a whole, control over cash receipts is very important at any level, and unless strong controls are in place and functioning properly, there would be no way to measure cash that is never recorded on the District's records.

An integral part of any accounting system's control environment is the security and integrity of the information technology systems and the accounting data. A significant safeguard to insure that this control environment remains secure is the implementation of a plan that provides for the protection of the information technology structure.

Fundamental systems to aid in the protection of the accounting control environment includes the use of secure passwords, adequate provisions for backup of key data, protection against system viruses and other threats.

A threat that could compromise the accounting system could be a devastating event for the District in lost productivity and data integrity. We recommend that District review the overall technology plan as it relates to the accounting system control environment to make sure that it provides adequate security and protection of the accounting data.

Continuing Disclosure Requirements

The 1999 Bond Issue requires the School to provide continuing disclosure information to the Bond Holders until all bonds are paid off. These disclosures can be included as supplemental information with the audit report.

Again, this year, we are providing the necessary information as a supplement within the audit report.

Single Audit Report

The Pine River Area Schools received over \$500,000 in federal funds and, therefore, are required to have a "Single Audit" in accordance with various federal and state guidelines. We will be completing the required Single Audit and will issue our reports thereon under a separate cover from your regular annual financial statements.

We recommend the Board and administration review the reports in the Single Audit for the year ended June 30, 2006.

Act 621 (Uniform Budgeting and Accounting Act)

Our comments relative to the District's budgeting procedures are as follows:

- (1) The Food Service Fund exceeded the budgeted amounts.
- (2) One activity in the General Fund exceeded the budgeted amounts. We commend the Superintendent and staff on a job well done on the District's budgeting process.

The District should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Groups and Organizations

In the past there have been instances of school related organizations that had been operating autonomous from the district, however, these groups were using the District's federal identification number on their bank accounts.

We recommend that all school related groups and organizations using the district's federal identification number be accounted for in the District's Agency (Activity) Fund. This will ensure proper oversight of the groups financial activities.

Accounting Records Procedures

We would like to compliment the accounting staff for their cooperation and assistance during the audit process. In addition, the increased business activity coupled with changes to the accounting system have all created additional demands on the accounting personnel. This expanded workload, however, has been absorbed without sacrificing the quality of the accounting records or minimizing existing internal controls. We also feel that this year's audit was performed in an efficient and organized manner. We would like to congratulate the accounting staff for their hard work and dedication to the District.

We would like to thank the Board for this opportunity to be of continuing service. We would also like to thank the administration and staff for their cooperative spirit and assistance in helping us complete this engagement. If we can be of further assistance, please do not hesitate to call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.